

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Township of Otsego	County Allegan
Fiscal Year End March 31, 2007	Opinion Date July 13, 2007	Date Audit Report Submitted to State September 5, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

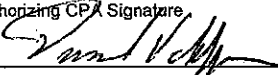
YES NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	Not considered necessary	
Other (Describe)	<input checked="" type="checkbox"/>	SAS No. 112 communication	
Certified Public Accountant (Firm Name) Siegfried Crandall P.C.		Telephone Number (269) 381-4970	
Street Address 246 E Kilgore		City Kalamazoo	State MI
		Zip 49002	
Authorizing CPA Signature 		Printed Name Daniel L. Veldhuizen	License Number 1101020724

*Township of Otsego*  
*Allegan County, Michigan*  
**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**  
*Year ended March 31, 2007*

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

***Township of Otsego***  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The following discussion and analysis is intended as a narrative overview of the Township of Otsego, Michigan's operations over the fiscal year and its financial condition on March 31, 2007. Please read it in conjunction with the Township's financial statements.

**FINANCIAL HIGHLIGHTS**

- The Township's total net assets increased by \$43,999 as a result of this year's operations. Net assets of the governmental activities increased by \$57,388 while the net assets of the business-type activities decreased by \$13,389.
- Of the \$5,394,034 total net assets reported, \$1,610,876 (30 percent) is unrestricted, or available to be used at the Board's discretion.
- The General Fund's unreserved, undesignated fund balance at the end of the fiscal year was \$411,109, which represents 69 percent of the actual total General Fund expenditures for the current fiscal year.

**Overview of the financial statements**

This discussion and analysis introduces the Township's basic financial statements that follow this section. The Township's annual financial report is comprised of three parts: management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township government, reporting the Township's operations in more detail than the government-wide financial statements.
  - The governmental fund statements tell how general governmental services like public works and public safety were financed in the short term as well as what remains for future spending.
  - Proprietary fund statements offer short- and long-term financial information about the activities the Township operates like a business. The Township's proprietary fund accounts for its water and wastewater systems.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

A comparative analysis of the basic financial statements for 2007 and 2006 is also presented.

**Township of Otsego**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

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**Government-wide financial statements**

The government-wide financial statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Township's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Township's net assets and how they have changed. Net assets (the difference between the Township's assets and liabilities) is one way to measure the Township's financial health, or position.

- Over time, increases or decreases in the Township's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township you need to consider additional nonfinancial factors such as changes in the Township's property tax base and the condition of the Township's capital assets.

The government-wide financial statements of the Township are divided into two categories:

- *Governmental activities* - These activities include functions most commonly associated with government (e.g., general government, public safety, public works, etc.). Property taxes and intergovernmental revenues finance most of these activities.
- *Business-type activities* - The Township charges fees to customers to help it cover the costs of certain services. The Township's water and wastewater system operations are reported here.

**Fund financial statements**

The fund financial statements provide more detailed information about the Township's most significant funds - not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by grant agreements.
- The Township Board establishes other funds to control and manage money for particular purposes (like cemetery operations) or to show that it is properly using certain taxes and other revenues (like the refuse collection millage).

The Township has three kinds of funds:

- *Governmental funds*. Most of the Township's basic services are included in governmental funds, which focus on (1) how cash, and other financial assets that can be readily converted to cash, flow in and out and, (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement that explains the relationship between them.

**Township of Otsego**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

- *Proprietary funds.* Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-and short-term financial information.
- *Fiduciary funds.* These funds are used to account for the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the Township. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The Township's fiduciary balances are reported in separate Statement of Fiduciary Net Assets - Fiduciary Funds. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

**FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE**

**Net assets.** Total net assets at the end of the fiscal year were \$5,394,034, an increase of 1 percent from the prior year. However, \$3,392,924 of this total is invested in capital assets, and \$90,234 is restricted for public works. Consequently, unrestricted net assets were \$1,610,876, 30% of the total. While the Township reports unrestricted net assets under both governmental and business-type activities, the unrestricted net assets of the business-type activities cannot be used to make up any net asset deficit in governmental activities.

Condensed financial information  
Net Assets

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 612,007	\$ 572,264	\$ 1,221,434	\$ 1,224,773	\$ 1,833,441	\$ 1,797,037
Capital assets	<u>757,674</u>	<u>705,595</u>	<u>4,484,917</u>	<u>4,604,597</u>	<u>5,242,591</u>	<u>5,310,192</u>
Total assets	<u>1,369,681</u>	<u>1,277,859</u>	<u>5,706,351</u>	<u>5,829,370</u>	<u>7,076,032</u>	<u>7,107,229</u>
Long-term debt	22,101	-	1,605,000	1,715,000	1,627,101	1,715,000
Other liabilities	<u>38,999</u>	<u>26,666</u>	<u>15,898</u>	<u>15,528</u>	<u>54,897</u>	<u>42,194</u>
Total liabilities	<u>61,100</u>	<u>26,666</u>	<u>1,620,898</u>	<u>1,730,528</u>	<u>1,681,998</u>	<u>1,757,194</u>
Net assets:						
Invested in capital assets, net of related debt	735,573	705,595	2,957,351	3,007,253	3,692,924	3,712,848
Restricted	90,234	84,854	-	-	90,234	84,854
Unrestricted	<u>482,774</u>	<u>460,744</u>	<u>1,128,102</u>	<u>1,091,589</u>	<u>1,610,876</u>	<u>1,552,333</u>
Total net assets	<u>\$ 1,308,581</u>	<u>\$ 1,251,193</u>	<u>\$ 4,085,453</u>	<u>\$ 4,098,842</u>	<u>\$ 5,394,034</u>	<u>\$ 5,350,035</u>

**Township of Otsego**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**Changes in net assets.** The Township's total revenues in 2007 are \$1,329,188. Approximately 43 percent of the Township's revenues come from charges for services while state shared revenue accounts for 25 percent of the total revenues. About 13 percent of total revenues come from taxes.

The total cost of all the Township's programs for 2007, covering a wide range of services, totaled \$1,285,189. More than 44 percent of the Township's costs relate to the provision of utility services while general government represents 32 percent of all costs.

*Condensed financial information*  
**Changes in net assets**

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Program revenues:						
Charges for services	\$ 230,271	\$ 239,076	\$ 344,286	\$ 357,208	\$ 574,557	\$ 596,284
Operating grants	5,467	5,093	-	-	5,467	5,093
Capital grants	-	-	168,281	345,427	168,281	345,427
General revenues:						
Property taxes	170,984	159,832	-	-	170,984	159,832
State shared revenue	334,878	344,469	-	-	334,878	344,469
Interest income	27,734	13,916	36,353	39,565	64,087	53,481
Other	10,934	13,457	-	-	10,934	13,457
Total revenues	<u>780,268</u>	<u>775,843</u>	<u>548,920</u>	<u>742,200</u>	<u>1,329,188</u>	<u>1,518,043</u>
Expenses:						
Legislative	4,906	4,500	-	-	4,906	4,500
General government	407,456	407,917	-	-	407,456	407,917
Public safety	185,741	177,557	-	-	185,741	177,557
Public works	80,553	149,677	-	-	80,553	149,677
Community and economic development	28,824	43,208	-	-	28,824	43,208
Culture and recreation	15,400	17,433	-	-	15,400	17,433
Public utilities	-	-	562,309	540,668	562,309	540,668
Total expenses	<u>722,880</u>	<u>800,292</u>	<u>562,309</u>	<u>540,668</u>	<u>1,285,189</u>	<u>1,340,960</u>
Increase (decrease) in net assets	<u>\$ 57,388</u>	<u>\$ (24,449)</u>	<u>\$ (13,389)</u>	<u>\$ 201,532</u>	<u>\$ 43,999</u>	<u>\$ 177,083</u>

**Governmental activities**

Governmental activities increased the Township's net assets by \$57,388 in 2007 compared with a \$24,449 decrease in 2006. Revenues increased \$4,425 while expenses decreased \$77,412. The primary reason for the increase in the net assets can be attributed to the decrease in public works costs during 2007.

The cost of all governmental activities this year was \$722,880 compared to \$800,292 in 2006. After subtracting the direct charges to those who directly benefited from the programs (\$230,271), and other operating and capital grants (\$5,467), the "public benefit" portion covered by property taxes, state shared revenue and other general revenues was \$487,142 in 2007 compared to \$556,123 in 2006.



**Township of Otsego**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

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**Business-type activities**

The business-type activities decreased the Township's net assets by \$13,389 in 2007 compared to an increase of \$201,532 in 2006. Revenues decreased by \$193,280 while expenses increased by \$21,641. Net assets increased in 2006 due to the collection of nearly \$195,000 of development fees. Development fees were minimal in 2007; therefore, net assets decreased in the current year.

**FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS**

**Governmental funds.** At March 31, 2007, the Township's governmental funds reported combined fund balances of \$573,008, which represents a \$27,410 increase compared to the prior year.

The General Fund is the chief operating fund of the Township. At the end of the fiscal year, unreserved fund balance was \$411,109, which represents 69 percent of the actual total General Fund expenditures for the current fiscal year. The fund balance of the General Fund increased by \$23,504 in 2007 when it had decreased by \$97,656 in 2006. The change was primarily due to two factors. The first factor was a decrease in expenditures for road projects. Only one Township road was resurfaced and expenditures for a small culvert that the Township had anticipated rehabilitating were delayed due to discussions with the County Road Commission as to the best resolution of the problem and the onset of winter weather. The culvert was subsequently repaired in the following fiscal year. When the fund balance permits, more significant roadwork projects will be undertaken. The second factor was an increase in collections of fees charged to other townships for the use of Township-owned fire equipment through the negotiation of a mutual aid contract for fire protection with neighboring townships.

The fund balance of the Cemetery Fund increased this year by \$3,906. The General Fund provided \$80,000 to the Cemetery Fund in the current year.

**Proprietary fund.** The Public Utilities Fund, the Township's sole proprietary fund, experienced a decrease in net assets of \$13,389 for reasons explained above.

**General Fund budgetary highlights**

The Township amended the General Fund budgeted expenditures during the year primarily to transfer appropriations between activities. Total budgeted expenditures were increased by only \$6,052.

Revenues and transfers in were \$11,376 less than budgeted while expenditures and transfers to other funds were \$123,502 less than the amounts appropriated. These conditions resulted in a \$112,126 positive budget variance and a \$23,504 increase in fund balance compared to a budgeted \$86,622 decrease. The public safety function, which includes fire protection and inspections costs was over budget by \$15,645. The variance was created through the accrual of payables at the end of the fiscal year that were not identified when the final budget amendments were approved.

**Township of Otsego**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

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**Capital assets and debt administration**

*Capital assets*

At March 31, 2007, the Township had invested \$5,242,591 (net of accumulated depreciation) in various capital assets, including its land, buildings, equipment, and utilities systems. This amount represents a net decrease of \$67,601, comprised of \$125,176 in additions and \$192,777 in provisions for depreciation.

This year's major capital asset additions included:

- \$81,662 in road improvements, an intangible asset
- Acquisition of a truck used in cemetery operations at a cost of \$34,207

More detailed information about the Township's capital assets is presented in Note 5 of the basic financial statements.

*Debt administration*

At the end of the fiscal year, the Township had debt outstanding in the amount of \$1,627,101, which represents a net decrease of \$87,899 (\$122,106 in payments and \$34,207 in debt issued) or 5 percent. All debt is backed by the full faith and credit of the Township.

During the year ended March 31, 2007, the Township entered into an installment purchase agreement to acquire a dump truck for use in Township cemeteries in the amount of \$34,207.

All required principal payments, in the amount of \$122,106, were paid in a timely manner.

More detailed information about the Township's long-term obligations is presented in Note 6 of the basic financial statements.

**Economic condition and outlook**

The Township continues to enjoy economic stability with taxable values increasing by \$11.9 million which offsets a slight decline in state shared revenue. The Township does not base its revenues on a single company or manufacturing operation, but instead enjoys a balanced mix of commercial, industrial and residential properties which helps to insure stability in property tax revenues. Barring any dramatic policy changes at the state level, the Township anticipates stable income and expense streams for the upcoming year.

**Contacting the Township's financial management**

This financial report is designed to provide a general overview of the Township's finances to its citizens, customers, investors, and creditors, and to demonstrate the Township's accountability for the money it receives. Questions regarding any information provided in this report or request for additional financial information should be addressed to:

Township of Otsego  
P.O. Box 257  
400 N. 16<sup>th</sup> Street  
Otsego, MI 49078

Phone: (269) 694-9434

## INDEPENDENT AUDITORS' REPORT

**Board of Trustees  
Township of Otsego, Michigan**

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Township of Otsego, Michigan, as of March 31, 2007, and for the year then ended, which collectively comprise the Township's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Township of Otsego, Michigan, as of March 31, 2007, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis and budgetary comparison schedules, as listed in the contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Otsego, Michigan's, basic financial statements. The supplementary data, as listed in the contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Sigfried Crandall P.C.*

July 13, 2007

## **BASIC FINANCIAL STATEMENTS**

**Township of Otsego**  
**STATEMENT OF NET ASSETS**  
*March 31, 2007*

	<u><b>Governmental activities</b></u>	<u><b>Business-type activities</b></u>	<u><b>Totals</b></u>
<b>ASSETS</b>			
Current assets:			
Cash	\$ 478,482	\$ 774,445	\$ 1,252,927
Receivables	<u>133,525</u>	<u>71,590</u>	<u>205,115</u>
Total current assets	<u>612,007</u>	<u>846,035</u>	<u>1,458,042</u>
Noncurrent assets:			
Receivables	-	297,965	297,965
Deferred charges, net of amortization	-	77,434	77,434
Capital assets not being depreciated	11,850	51,860	63,710
Capital assets, net of accumulated depreciation	<u>745,824</u>	<u>4,433,057</u>	<u>5,178,881</u>
Total noncurrent assets	<u>757,674</u>	<u>4,860,316</u>	<u>5,617,990</u>
Total assets	<u>1,369,681</u>	<u>5,706,351</u>	<u>7,076,032</u>
<b>LIABILITIES</b>			
Current liabilities:			
Payables	38,999	15,898	54,897
Current portion of long-term obligations	<u>10,713</u>	<u>-</u>	<u>10,713</u>
Total current liabilities	49,712	15,898	65,610
Noncurrent liabilities:			
Noncurrent portion of long-term obligations	<u>11,388</u>	<u>1,605,000</u>	<u>1,616,388</u>
Total liabilities	<u>61,100</u>	<u>1,620,898</u>	<u>1,681,998</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	735,573	2,957,351	3,692,924
Restricted for public works	90,234	-	90,234
Unrestricted	<u>482,774</u>	<u>1,128,102</u>	<u>1,610,876</u>
Total net assets	<u>\$ 1,308,581</u>	<u>\$ 4,085,453</u>	<u>\$ 5,394,034</u>

*See notes to the financial statements*

**Township of Otsego**  
**STATEMENT OF ACTIVITIES**  
Year ended March 31, 2007

Functions/Programs	<u>Expenses</u>	<u>Program revenues</u>		
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>
Governmental activities:				
Legislative	\$ 4,906	\$ -	\$ -	\$ -
General government	407,456	135,507	-	-
Public safety	185,741	88,769	-	-
Public works	80,553	2,095	5,467	-
Community and economic development	28,824	3,900	-	-
Culture and recreation	<u>15,400</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	722,880	230,271	5,467	-
Business-type activities:				
Public utilities	<u>562,309</u>	<u>344,286</u>	<u>-</u>	<u>168,281</u>
Totals	<u>\$ 1,285,189</u>	<u>\$ 574,557</u>	<u>\$ 5,467</u>	<u>\$ 168,281</u>

General revenues:

Property taxes  
State shared revenue  
Cable television franchise fees  
Interest income

Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending

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**Net (expenses) revenues and changes in net assets**

<b><u>Governmental activities</u></b>	<b><u>Business-type activities</u></b>	<b><u>Totals</u></b>
\$ (4,906)		\$ (4,906)
(271,949)		(271,949)
(96,972)		(96,972)
(72,991)		(72,991)
(24,924)		(24,924)
<u>(15,400)</u>		<u>(15,400)</u>
(487,142)		(487,142)
	\$ <u>(49,742)</u>	<u>(49,742)</u>
<u>(487,142)</u>	<u>(49,742)</u>	<u>(536,884)</u>
170,984	-	170,984
334,878	-	334,878
10,934	-	10,934
<u>27,734</u>	<u>36,353</u>	<u>64,087</u>
<u>544,530</u>	<u>36,353</u>	<u>580,883</u>
57,388	(13,389)	43,999
<u>1,251,193</u>	<u>4,098,842</u>	<u>5,350,035</u>
<u>\$ 1,308,581</u>	<u>\$ 4,085,453</u>	<u>\$ 5,394,034</u>

See notes to the financial statements



**Township of Otsego**  
**BALANCE SHEET - governmental funds**  
March 31, 2007

	<u>Major funds</u>		<u>Nonmajor governmental fund</u>	<u>Total governmental funds</u>
	<u>General</u>	<u>Cemetery</u>	<u>Trash</u>	
<b>ASSETS</b>				
Cash	\$ 458,540	\$ 19,942	\$ -	\$ 478,482
Receivables	<u>81,802</u>	<u>51,723</u>	<u>-</u>	<u>133,525</u>
Total assets	<u>\$ 540,342</u>	<u>\$ 71,665</u>	<u>\$ -</u>	<u>\$ 612,007</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities - payables	<u>\$ 38,999</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,999</u>
Fund balances:				
Reserved for trash collection	90,234	-	-	90,234
Unreserved	<u>411,109</u>	<u>71,665</u>	<u>-</u>	<u>482,774</u>
Total fund balances	<u>501,343</u>	<u>71,665</u>	<u>-</u>	<u>573,008</u>
Total liabilities and fund balances	<u>\$ 540,342</u>	<u>\$ 71,665</u>	<u>\$ -</u>	<u>\$ 612,007</u>
Total fund balances - governmental funds				\$ 573,008
Amounts reported for <i>governmental activities</i> in the statement of net assets (page 5) are different because:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				757,674
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds				<u>(22,101)</u>
Net assets of <i>governmental activities</i>				<u>\$ 1,308,581</u>

See notes to the financial statements

**Township of Otsego**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - governmental funds**

Year ended March 31, 2007

	<b>Major funds</b>		<b>Nonmajor governmental fund</b>	<b>Total governmental funds</b>
	<b>General</b>	<b>Cemetery</b>	<b>Trash</b>	
<b>REVENUES</b>				
Property taxes	\$ 180,921	\$ -	\$ 35,201	\$ 216,122
Licenses and permits	78,450	-	-	78,450
State grants	340,345	-	-	340,345
Contribution from local unit	-	51,723	-	51,723
Charges for services	34,738	25,009	-	59,747
Interest and rentals	28,147	1,037	-	29,184
Other	4,421	276	-	4,697
Total revenues	<u>667,022</u>	<u>78,045</u>	<u>35,201</u>	<u>780,268</u>
<b>EXPENDITURES</b>				
Legislative	4,906	-	-	4,906
General government	230,978	141,794	-	372,772
Public safety	148,365	-	-	148,365
Public works	154,122	-	-	154,122
Community and economic development	28,824	-	-	28,824
Culture and recreation	15,400	-	-	15,400
Capital outlay	16,124	239	-	16,363
Debt service - principal	-	12,106	-	12,106
Total expenditures	<u>598,719</u>	<u>154,139</u>	<u>-</u>	<u>752,858</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>68,303</u>	<u>(76,094)</u>	<u>35,201</u>	<u>27,410</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	35,201	80,000	-	115,201
Transfers out	(80,000)	-	(35,201)	(115,201)
Total other financing sources (uses)	<u>(44,799)</u>	<u>80,000</u>	<u>(35,201)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>23,504</u>	<u>3,906</u>	<u>-</u>	<u>27,410</u>
<b>FUND BALANCES - BEGINNING</b>	<u>477,839</u>	<u>67,759</u>	<u>-</u>	<u>545,598</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 501,343</u>	<u>\$ 71,665</u>	<u>\$ -</u>	<u>\$ 573,008</u>
Net change in fund balances - total governmental funds				\$ 27,410
Amounts reported for <i>governmental activities</i> in the statement of activities (page 6) are different because:				
Capital assets:				
Assets acquired				90,969
Provision for depreciation				(73,097)
Long-term debt - principal repayments				<u>12,106</u>
Change in net assets of <i>governmental activities</i>				<u>\$ 57,388</u>

See notes to the financial statements

**Township of Otsego**  
**STATEMENT OF NET ASSETS - proprietary fund**  
March 31, 2007

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	<u><b>Public Utilities</b></u>
<b>ASSETS</b>	
Current assets:	
Cash	\$ 774,445
Receivables	<u>71,590</u>
Total current assets	<u>846,035</u>
Noncurrent assets:	
Receivables	297,965
Deferred charges	77,434
Capital assets not being depreciated - land	51,860
Capital assets, net of accumulated depreciation	<u>4,433,057</u>
Total noncurrent assets	<u>4,860,316</u>
Total assets	<u>5,706,351</u>
<b>LIABILITIES</b>	
Current liabilities - payables	15,898
Noncurrent liabilities - contracts payable	<u>1,605,000</u>
Total liabilities	<u>1,620,898</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	2,957,351
Unrestricted	<u>1,128,102</u>
Total net assets	<u>\$ 4,085,453</u>

See notes to the financial statements

**Township of Otsego**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN**  
**NET ASSETS - *proprietary funds***  
*Year ended March 31, 2007*

	<u><b>Public Utilities</b></u>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 344,286
<b>OPERATING EXPENSES</b>	
Salaries	44,999
Payroll taxes	3,698
Pension	4,468
Professional fees	34,684
Insurance	13,574
Utilities	10,459
Supplies and maintenance	29,990
Sewage flow	185,554
Depreciation	102,680
Amortization	17,000
Other	5,120
	<u>452,226</u>
Total operating expenses	<u>452,226</u>
Operating loss	<u>(107,940)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest revenue:	
Special assessments	18,237
Other	36,353
Capital charges	141,644
Development fees	8,400
Interest expense and fiscal charges	<u>(110,083)</u>
Total nonoperating revenues	<u>94,551</u>
<b>CHANGE IN NET ASSETS</b>	(13,389)
<b>NET ASSETS - BEGINNING</b>	<u>4,098,842</u>
<b>NET ASSETS - ENDING</b>	<u><u>\$ 4,085,453</u></u>

*See notes to the financial statements*

**Township of Otsego**  
**STATEMENT OF CASH FLOWS - proprietary fund**  
Year ended March 31, 2007

	<u>Public Utilities</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers and users	\$ 343,455
Payments to vendors and suppliers	(287,177)
Payments to employees	<u>(44,999)</u>
Net cash provided by operating activities	<u>11,279</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Receipt of capital charges	141,644
Receipt of development fees	8,400
Collection of special assessment principal	29,201
Collection of special assessment interest	18,237
Principal payments on capital debt	(110,000)
Interest payments on capital debt	<u>(69,861)</u>
Net cash provided by capital and related financing activities	<u>17,621</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest received	<u>36,353</u>
<b>NET INCREASE IN CASH</b>	65,253
<b>CASH - BEGINNING</b>	<u>709,192</u>
<b>CASH - ENDING</b>	<u><u>\$ 774,445</u></u>

See notes to the financial statements

***Township of Otsego***

**STATEMENT OF CASH FLOWS - *proprietary fund* (Continued)**

*Year ended March 31, 2007*

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	<u><b><i>Public Utilities</i></b></u>
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>	
Operating loss	\$ (107,940)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	119,680
Increase in receivables	(831)
Increase in payables	<u>370</u>
Net cash provided by operating activities	<u>\$ 11,279</u>

*See notes to the financial statements*

***Township of Otsego***

**STATEMENT OF FIDUCIARY NET ASSETS - *Agency Fund***

*March 31, 2007*

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**ASSETS**

Cash	\$ 37,533
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**LIABILITIES**

Due to other governmental units	\$ 37,533
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*See notes to the financial statements*

**Township of Otsego**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of the Township of Otsego, Michigan (the Township), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies.

*a) Reporting entity:*

The accompanying financial statements present only the Township. There are no component units, entities for which the Township is considered to be financially accountable.

*b) Government-wide and fund financial statements:*

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Township. The effect of inter-fund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

*c) Measurement focus, basis of accounting, and financial statement presentation:*

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.



**Township of Otsego**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

*c) Measurement focus, basis of accounting, and financial statement presentation (continued):*

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the Township.

The Township reports the following major governmental funds:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Cemetery Fund accounts for the financial resources used for the operational costs of the Township's cemeteries. Revenues are primarily derived from charges for services and contributions from a local unit.

The Township reports the following major proprietary fund:

The Public Utilities Fund accounts for the activities of the Township's sewage collection and water distribution systems.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector standards.

The Township reports a single fiduciary fund, its Agency Fund, which accounts for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**Township of Otsego**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**d) Assets, liabilities, and net assets or equity:**

*i) Bank deposits* - Cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

*ii) Receivables* - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." No allowance for uncollectible accounts has been recorded as the Township considers all receivables to be fully collectible.

*iii) Capital assets* - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 (\$10,000 for infrastructure assets) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The Township has elected to account for infrastructure assets prospectively, beginning April 1, 2004.

The Township includes shared fire vehicle costs in the intangible assets of its governmental activities. These costs represent the Township's portion of fire vehicles that are owned by the City of Otsego.

The Township includes sewage capacity rights in the intangible assets of its business-type activities. These costs represent the Township's sewage capacity rights through the City of Plainwell.

Capital assets are depreciated or amortized using the straight-line method over the following useful lives:

Buildings and improvements	15 - 60 years
Equipment	3 - 15 years
Sewer and water systems	50 years
Intangible assets	5 - 25 years

*iv) Fund equity* - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Township of Otsego**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

*d) Assets, liabilities, and net assets or equity (continued):*

*v) Property tax revenue recognition* - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the Township. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Township considers property taxes levied December 1 to be revenues of the current period.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:**

*Budgetary information* - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the functional level. All annual appropriations lapse at the end of the fiscal year.

The following schedule sets forth significant budget variations:

<u>Fund</u>	<u>Function</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General	Public safety	<u>\$ 132,720</u>	<u>\$ 148,365</u>	<u>\$ 15,645</u>

**NOTE 3 - CASH:**

At March 31, 2007, the Township's cash, as presented in the financial statements, is as follows:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Fiduciary</u>	<u>Totals</u>
Cash	<u>\$ 478,482</u>	<u>\$ 774,445</u>	<u>\$ 37,533</u>	<u>\$ 1,290,460</u>

State statutes and the Township's investment policy authorize the Township to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Township's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Township will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by federal depository insurance and are uncollateralized. At March 31, 2007, \$1,093,382 of the Township's bank balances of \$1,299,015 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The Township believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

**Township of Otsego**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 4 - RECEIVABLES:**

At March 31, 2007, the receivables of the Township's funds are as follows:

	<u>Accounts</u>	<u>Property taxes</u>	<u>Special assess- ments</u>	<u>Inter- govern- mental</u>	<u>Totals</u>
Governmental funds:					
General Fund	\$ 10,207	\$ 17,128	\$ -	\$ 54,467	\$ 81,802
Cemetery Fund	-	-	-	51,723	51,723
Total governmental funds	<u>\$ 10,207</u>	<u>\$ 17,128</u>	<u>\$ -</u>	<u>\$ 106,190</u>	<u>\$ 133,525</u>
Proprietary fund:					
Public Utilities Fund	<u>\$ 31,590</u>	<u>\$ -</u>	<u>\$ 337,965</u>	<u>\$ -</u>	<u>\$ 369,555</u>
Noncurrent portion	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 297,965</u>	<u>\$ -</u>	<u>\$ 297,965</u>

All receivables are considered fully collectible.

**NOTE 5 - CAPITAL ASSETS:**

Capital asset activity for the year ended March 31, 2007, was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated - land	\$ 11,850	\$ -	\$ -	\$ 11,850
Capital assets being depreciated:				
Land improvements	7,000	-	-	7,000
Buildings	234,315	-	-	234,315
Equipment	184,705	34,207	-	218,912
Intangible assets	<u>802,749</u>	<u>90,969</u>	<u>-</u>	<u>893,718</u>
Subtotal	<u>1,228,769</u>	<u>125,176</u>	<u>-</u>	<u>1,353,945</u>
Less accumulated depreciation for:				
Land improvements	(594)	(233)	-	(827)
Buildings	(72,742)	(5,708)	-	(78,450)
Equipment	(140,284)	(21,687)	-	(161,971)
Intangible assets	<u>(321,404)</u>	<u>(45,469)</u>	<u>-</u>	<u>(366,873)</u>
Subtotal	<u>(535,024)</u>	<u>(73,097)</u>	<u>-</u>	<u>(608,121)</u>
Total capital assets being depreciated, net	<u>693,745</u>	<u>52,079</u>	<u>-</u>	<u>745,824</u>
Governmental activities capital assets, net	<u>\$ 705,595</u>	<u>\$ 52,079</u>	<u>\$ -</u>	<u>\$ 757,674</u>

**Township of Otsego**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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NOTE 5 - CAPITAL ASSETS (Continued):

	<i><u>Beginning balance</u></i>	<i><u>Increases</u></i>	<i><u>Decreases</u></i>	<i><u>Ending balance</u></i>
Business-type activities:				
Capital assets not being depreciated - land	<u>\$ 51,860</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,860</u>
Capital assets being depreciated:				
Sewer and water systems	4,917,510	-	-	4,917,510
Equipment	57,573	-	-	57,573
Intangible assets	<u>425,000</u>	<u>-</u>	<u>-</u>	<u>425,000</u>
Subtotal	<u>5,400,083</u>	<u>-</u>	<u>-</u>	<u>5,400,083</u>
Less accumulated depreciation for:				
Sewer and water system	(747,544)	(98,340)	-	(845,884)
Equipment	(35,202)	(4,340)	-	(39,542)
Intangible assets	<u>(64,600)</u>	<u>(17,000)</u>	<u>-</u>	<u>(81,600)</u>
Subtotal	<u>(847,346)</u>	<u>(119,680)</u>	<u>-</u>	<u>(967,026)</u>
Total capital assets being depreciated, net	<u>4,552,737</u>	<u>(119,680)</u>	<u>-</u>	<u>4,433,057</u>
Business-type activities capital assets, net	<u>\$ 4,604,597</u>	<u>\$ (119,680)</u>	<u>\$ -</u>	<u>\$ 4,484,917</u>

Depreciation expense was charged to governmental functions of the Township as follows:

Governmental activities:	
General government	\$ 27,628
Public safety	37,376
Public works	<u>8,093</u>
Total governmental activities	<u>\$ 73,097</u>

**Township of Otsego**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 6 - LONG-TERM OBLIGATIONS:**

Long-term obligations, at March 31, 2007, are comprised of the following individual issues:

Governmental activities:

\$34,207 2007 installment purchase agreement payable in annual installments ranging from \$10,713 to 11,388, plus interest at 6.30%; final payment due May 2009. \$ 22,101

Business-type activities:

\$1,375,000 2000 Allegan County water supply and sewage disposal system contract payable - payable in annual installments ranging from \$50,000 to \$75,000, plus interest at 5.10% to 5.30%; final payment due May 2009 \$ 125,000

\$645,000 2004 Allegan County water supply and sewage disposal system contract payable - payable in annual installments ranging from \$35,000 to \$60,000, plus interest at 2.00% to 4.13%; final payment due May 2016 515,000

\$965,000 2006 Allegan County water supply and sewage disposal system contract payable - payable in annual installments ranging from \$75,000 to \$105,000, plus interest at 3.80% to 4.50%; final payment due May 2020 965,000

Total business-type activities \$1,605,000

Long-term obligation activity for the year ended March 31, 2007, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Governmental activities:					
2007 installment purchase	\$ -	\$ 34,207	\$ (12,106)	\$ 22,101	\$ 10,713
Business-type activities:					
2000 contract payable	\$ 175,000	\$ -	\$ (50,000)	\$ 125,000	\$ -
2004 contract payable	575,000	-	(60,000)	515,000	-
2006 contract payable	<u>965,000</u>	<u>-</u>	<u>-</u>	<u>965,000</u>	<u>-</u>
	<u>\$ 1,715,000</u>	<u>\$ -</u>	<u>\$ (110,000)</u>	<u>\$ 1,605,000</u>	<u>\$ -</u>

**Township of Otsego**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 6 - LONG-TERM OBLIGATIONS (Continued):**

Debt service requirements at March 31, 2007, were as follows:

<u>Year ended</u> <u>March 31,</u>	<u>Governmental activities</u>		<u>Business-type activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 10,713	\$ 1,392	\$ -	\$ 33,227
2009	11,388	717	105,000	64,248
2010	-	-	205,000	57,699
2011	-	-	125,000	51,052
2012	-	-	120,000	46,471
2013 - 2017	-	-	720,000	151,936
2018 - 2021	-	-	330,000	21,684
Totals	<u>\$ 22,101</u>	<u>\$ 2,109</u>	<u>\$1,605,000</u>	<u>\$ 426,317</u>

All debt is secured by the full faith and credit of the Township.

**NOTE 7 - DEFINED CONTRIBUTION PENSION PLAN:**

The Township provides pension benefits for substantially all of its employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Michigan state statute assigns the authority to establish and amend benefit provisions to the Township Board of Trustees. Employees are eligible to participate from the date of employment. Contributions range from \$200 to \$3,600 per employee, at a rate of \$100 per \$1,000 of compensation. The Township's contributions are fully vested immediately. The Township is not a trustee of the plan, nor is the Township responsible for investment management of plan assets.

The Township made the required contributions of \$21,433 for the fiscal year ending March 31, 2007.

**Township of Otsego**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 8 - INTERFUND TRANSFERS:**

A summary of interfund transfers for the year ended March 31, 2007, is as follows:

<u>Fund</u>	<u>Transfers in</u>	<u>Fund</u>	<u>Transfers out</u>
Cemetery	\$ 80,000	General	\$ 80,000
General	<u>35,201</u>	Trash	<u>35,201</u>
	<u>\$ 115,201</u>		<u>\$ 115,201</u>

The transfer to the Cemetery Fund represents unrestricted revenues from the General Fund to help pay for operational costs of the Township's cemeteries.

The transfer to the General Fund represents restricted revenues collected in the Trash Fund to pay for operational costs of trash collection accounted for in the General Fund.

**NOTE 9 - RISK MANAGEMENT:**

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for each of these claims and is neither self-insured nor participates in a shared-risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**NOTE 10 - CONSTRUCTION CODE ACT:**

A summary of construction code enforcement transactions for the year ended March 31, 2007, is as follows:

Revenues	\$67,346
Expenses	<u>76,103</u>
Deficiency of revenues over expenses	<u>\$ (8,757)</u>



## **REQUIRED SUPPLEMENTARY INFORMATION**

**Township of Otsego**  
**BUDGETARY COMPARISON SCHEDULE - General Fund**  
Year ended March 31, 2007

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>REVENUES</b>				
Property taxes	\$ 171,368	\$ 177,083	\$ 180,921	\$ 3,838
Licenses and permits	80,830	80,870	78,450	(2,420)
State grants	346,989	342,456	340,345	(2,111)
Charges for services	16,250	39,076	34,738	(4,338)
Interest and rentals	22,000	27,000	28,147	1,147
Other	12,940	12,440	4,421	(8,019)
Total revenues	<u>650,377</u>	<u>678,925</u>	<u>667,022</u>	<u>(11,903)</u>
<b>EXPENDITURES</b>				
Legislative	<u>4,451</u>	<u>4,951</u>	<u>4,906</u>	<u>45</u>
General government:				
Supervisor	18,255	18,255	16,408	1,847
Elections	10,000	10,000	5,381	4,619
Assessor	33,600	33,600	31,951	1,649
Clerk	29,012	29,012	26,516	2,496
Board of review	1,500	1,500	1,065	435
Treasurer	28,512	28,512	27,623	889
Hall and grounds	32,000	32,000	27,557	4,443
General administration	119,071	118,623	94,477	24,146
Total general government	<u>271,950</u>	<u>271,502</u>	<u>230,978</u>	<u>40,524</u>
Public safety:				
Fire protection	88,290	73,720	83,440	(9,720)
Inspections	59,000	59,000	64,925	(5,925)
Total public safety	<u>147,290</u>	<u>132,720</u>	<u>148,365</u>	<u>(15,645)</u>
Public works:				
Road maintenance and improvements	128,000	168,000	118,435	49,565
Street lights	2,200	2,650	2,633	17
Drains	10,000	10,000	2,740	7,260
Refuse collection	38,000	38,000	30,199	7,801
Recycling	2,000	2,000	-	2,000
Engineering	8,000	8,000	115	7,885
Total public works	<u>188,200</u>	<u>228,650</u>	<u>154,122</u>	<u>74,528</u>

**Township of Otsego**

**BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)**

Year ended March 31, 2007

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>EXPENDITURES (Continued)</b>				
Community and economic development - planning and zoning	\$ 35,678	\$ 35,678	\$ 28,824	\$ 6,854
Culture and recreation	16,500	16,500	15,400	1,100
Capital outlay	50,100	30,220	16,124	14,096
Total expenditures	714,169	720,221	598,719	121,502
<b>EXCESS (DEFICIENCY) OF REVENUES     OVER EXPENDITURES</b>	(63,792)	(41,296)	68,303	109,599
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer in - Trash Fund	34,174	34,674	35,201	527
Transfer out - Cemetery Fund	(82,000)	(82,000)	(80,000)	2,000
Total other financing uses	(47,826)	(47,326)	(44,799)	2,527
<b>NET CHANGES IN FUND BALANCES</b>	(111,618)	(88,622)	23,504	112,126
<b>FUND BALANCES - BEGINNING</b>	477,839	477,839	477,839	-
<b>FUND BALANCES - ENDING</b>	\$ 366,221	\$ 389,217	\$ 501,343	\$ 112,126

**Township of Otsego**

**BUDGETARY COMPARISON SCHEDULE - Cemetery Fund**

Year ended March 31, 2007

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>REVENUES</b>				
Contribution from local unit	\$ 50,936	\$ 50,936	\$ 51,723	\$ 787
Charges for services	27,000	26,824	25,009	(1,815)
Interest	1,200	1,200	1,037	(163)
Other	2,100	2,276	276	(2,000)
Total revenues	<u>81,236</u>	<u>81,236</u>	<u>78,045</u>	<u>(3,191)</u>
<b>EXPENDITURES</b>				
General government	149,140	151,140	141,794	9,346
Capital outlay	2,000	2,000	239	1,761
Debt service - principal	12,106	12,106	12,106	-
Total expenditures	<u>163,246</u>	<u>165,246</u>	<u>154,139</u>	<u>11,107</u>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	(82,010)	(84,010)	(76,094)	7,916
<b>OTHER FINANCING SOURCES</b>				
Transfer in - General Fund	<u>82,000</u>	<u>82,000</u>	<u>80,000</u>	<u>(2,000)</u>
<b>NET CHANGES IN FUND BALANCES</b>	(10)	(2,010)	3,906	5,916
<b>FUND BALANCES - BEGINNING</b>	<u>67,759</u>	<u>67,759</u>	<u>67,759</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 67,749</u>	<u>\$ 65,749</u>	<u>\$ 71,665</u>	<u>\$ 5,916</u>

## **SUPPLEMENTARY DATA**

**Township of Otsego**

**SCHEDULE OF ANNUAL PRINCIPAL AND INTEREST REQUIREMENTS**

**\$1,375,000 2000 WATER SUPPLY AND SEWAGE DISPOSAL**

**SYSTEM CONTRACT PAYABLE**

March 31, 2007

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<i>Fiscal period</i>	<i>Interest rate</i>	<i>Interest</i>		<i>Maturity date</i>	<i>Principal</i>	<i>Total requirements</i>
		<i>May 1</i>	<i>November 1</i>			
2008	5.20%	\$ -	\$ 3,300	05/01/07	\$ -	\$ 3,300
2009	5.25%	3,300	1,988	05/01/08	50,000	55,288
2010	5.30%	1,987	-	05/01/09	75,000	76,987
		<u>\$ 5,287</u>	<u>\$ 5,288</u>		<u>\$ 125,000</u>	<u>\$ 135,575</u>

**Township of Otsego****SCHEDULE OF ANNUAL PRINCIPAL AND INTEREST REQUIREMENTS****\$645,000 2004 WATER SUPPLY AND SEWAGE DISPOSAL****SYSTEM CONTRACT PAYABLE***March 31, 2007*

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<i>Fiscal period</i>	<i>Interest rate</i>	<i>Interest</i>		<i>Maturity date</i>	<i>Principal</i>	<i>Total requirements</i>
		<i>May 1</i>	<i>November 1</i>			
2008	3.000%	\$ -	\$ 9,524	05/01/07	\$ -	\$ 9,524
2009	3.250%	9,524	8,630	05/01/08	55,000	73,154
2010	3.375%	8,630	7,702	05/01/09	55,000	71,332
2011	3.375%	7,702	6,858	05/01/10	50,000	64,560
2012	3.500%	6,858	5,983	05/01/11	50,000	62,841
2013	3.625%	5,983	5,167	05/01/12	45,000	56,150
2014	3.800%	5,167	3,837	05/01/13	70,000	79,004
2015	3.900%	3,837	2,570	05/01/14	65,000	71,407
2016	4.100%	2,570	1,238	05/01/15	65,000	68,808
2017	4.125%	1,238	-	05/01/16	60,000	61,238
		<u>\$ 51,509</u>	<u>\$ 51,509</u>		<u>\$ 515,000</u>	<u>\$ 618,018</u>

**Township of Otsego****SCHEDULE OF ANNUAL PRINCIPAL AND INTEREST REQUIREMENTS****\$965,000 2006 WATER SUPPLY AND SEWAGE DISPOSAL****SYSTEM CONTRACT PAYABLE***March 31, 2007*

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<i>Fiscal period</i>	<i>Interest rate</i>	<i>Interest</i>		<i>Maturity date</i>	<i>Principal</i>	<i>Total requirements</i>
		<i>May 1</i>	<i>November 1</i>			
2008	3.80%	\$ -	\$ 20,403		\$ -	\$ 20,403
2009	3.80%	20,403	20,403		-	40,806
2010	3.80%	20,403	18,977	05/01/09	75,000	114,380
2011	3.80%	18,977	17,515	05/01/10	75,000	111,492
2012	3.90%	17,515	16,115	05/01/11	70,000	103,630
2013	4.00%	16,115	14,680	05/01/12	70,000	100,795
2014	4.10%	14,680	13,228	05/01/13	70,000	97,908
2015	4.15%	13,228	11,232	05/01/14	95,000	119,460
2016	4.20%	11,232	9,297	05/01/15	90,000	110,529
2017	4.30%	9,297	7,340	05/01/16	90,000	106,637
2018	4.35%	7,340	4,810	05/01/17	115,000	127,150
2019	4.40%	4,810	2,362	05/01/18	110,000	117,172
2020	4.45%	2,362	-	05/01/19	105,000	107,362
		<u>\$ 156,362</u>	<u>\$ 156,362</u>		<u>\$ 965,000</u>	<u>\$ 1,277,724</u>



**Members of the Township Board  
Township of Otsego, Michigan**

In planning and performing our audit of the financial statements of the Township of Otsego as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Township of Otsego's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness.

The Township does not have procedures in place to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to record revenue and expenditure accruals, changes in capital assets, and to present required financial statement disclosures.

This communication is intended solely for the information and use of management, the Board of Trustees of the Township of Otsego, and the State of Michigan Department of Treasury, and is not intended to be and should not be used by anyone other than these specified parties.

*Siegfried Crandall P.C.*

July 13, 2007